



A THEORY OF ENTERPRISE



*More often than not, new businesses fail. Worldwide, over half of all new startups fail to make it to the three year mark. A new business assessment model by **Prof. Russell Smith** wants to reverse this trend, and he and his team have already proven that it works. **Dr Edward Duca** writes.*

Launching a business is hard work. Writing for Entrepreneur Europe, NYC-based communications professional Derrek Newton compiled a hilarious list of metaphors linked to the startup process.

People likened it to chess and football—tough sports that require mental acumen and strategy. Others said that ‘starting a business is like climbing a mountain,’ while yet another person compared it to joining the priesthood because it requires devotion and dedication! But there’s also a darker side to all this: nearly one in three entrepreneurs suffer from depression because of their work.

Prof. Russell Smith (Centre of Entrepreneurship and Business Incubation, University of Malta) wants to make building and running a business less stressful and more accessible. But how?

He comes from a long line of teachers and engineers, so, he says: ‘I am used to taking things to pieces, figuring out how they work and putting them back together again.’ He couples this skill set with a unique take on the human body: ‘I don’t think medical research is any different [from setting up a business],’ both are machines of sorts. While working for a pharmaceutical company and teaching at various universities, including Oxford, he saw business patterns everywhere. His experience allowed him to create a conceptual framework of the basic components that a company needs to

succeed—‘its physiology,’ he explains. After that, the next step was for Smith to figure out ‘how [to] diagnose what’s wrong and make recommendations and interventions,’ giving advice on how and when one should keep a business alive, or abandon it quickly. A model was slowly being built.

The Incumatrix™ Business Adviser was the seed Smith helped grow with Prof. Philip Wragg in Oxford, a long-time colleague and entrepreneurship co-lecturer. Smith came up with five key points for businesses, honed and tested while working ‘with 5000 business founders from around the world, all of them with incredibly diverse backgrounds.’

The Incumatrix™ model could turn ‘70% failure at 5 years to 70% success,’ explains Smith. Amongst their many students from diverse backgrounds were army veterans. In memory of a fallen friend, they trained over a thousand forces personnel many of whom had ‘lost one, two, or three limbs.’ These military personnel have strong values: ‘good at training, teamwork, planning, they don’t quit when it gets cold and dirty, they understand about setting objectives and milestones, about when to withdraw.’ These qualities overlap with those needed to run a business successfully. Smith helped them link this skill set to the expertise entrepreneurs need to start a business, giving them another lifeline. War veterans could reintegrate into society and enhance their pension or benefits. Whatever walks of life 🔄

they were from, they were able to acquire 'the skills that are translatable to put together a business concept.' Their approach was universal enough to apply to each student: 'they got what we said, [...] and we realised that we had got it.' A universal business model was born!

After developing the core idea and values, a golden opportunity came from the University of Malta (UM). 'Through European funding, we could do what we couldn't do in Oxford.' Smith and Wragg wanted to 'have more of a community focus' and develop a course and business model that could 'put bread on the table' but also scale up to the next unicorn: a billion dollar business.

'If we do have it right, and have got the Theory of Enterprise, then it should be used right across the board. So I see this working equally in large companies and for a person working out of their room.' And they think that they might have 'a chance to do something special here in Malta.' And this is where The Enterprise Framework comes in.

THE ENTERPRISE FRAMEWORK

So, what is The Enterprise Framework? It is composed of two parts: the first is The Incumatrix™ Business Adviser that Smith and his team have used to assess the health of thousands of businesses. As a model, it is composed of 25 squares representing the qualities that a business needs to consider. The second part is a set of 25 hexagons that assess the right support structures that a business needs to succeed, or its progress pathway through the Business Environment. To understand the beauty of how these two panels intertwine, we need to go back to basics.

The basis of enterprise, according to this model, is that an entrepreneur identifies a problem and the product or service that would act as a solution, providing benefit to the customer. This leads to some simple questions: 'Can you [the business] deliver the solution to solve a problem? Do enough customers

want it? Do the customers perceive the benefits? Can the enterprise generate value [profit] for itself? Should you do this?' For Smith the most important question is: 'does it make you happy?'

An entrepreneur can come to these questions (and answers) through the model. Each of the 25 points in the Incumatrix™ Business Adviser describes a business quality, such as value proposition, sales management, cash flow forecast, commercial strategy, financial control, and so on (see picture). The intriguing thing about the model is that it can also be used to tell the story of a business.

Smith takes two plumbers in partnership as his starting point for our business narrative. Smiling, he says, 'I've never met a poor plumber, at least in monetary terms.' This earns them 4 points (marking ranges from 0=absent to 4=proficient) on production control and strategy. But they only get a 1 on owner's control as 'they don't have a partnership agreement.'

PRODUCTION

OWNERS' CONTROL	BUSINESS TEAM	MILESTONE MANAGEMENT	BUSINESS VALUE	FINANCIAL CONTROL
BUSINESS RECRUITMENT	PEOPLE STRATEGY	ENTERPRISE FORECAST	FUNDING STRATEGY	BUSINESS PROFITABILITY
SALES MANAGEMENT	MARKET FORECAST	VALUE PROPOSITION	CASH FLOW FORECAST	ACCOUNTING MANAGEMENT
BUSINESS MARKETING	COMMERCIAL STRATEGY	SOLUTION FORECAST	PRODUCTION STRATEGY	BUSINESS RESOURCES
BRAND CONTROL	BUSINESS INTELLIGENCE	INNOVATION MANAGEMENT	BUSINESS SOLUTIONS	PRODUCTION CONTROL



They also have 'no idea about brand and business marketing.' With hardly a name or a logo for their business, they fail to get any marks for this. Through the Incumatrix™ Business Adviser Smith can give 'a rating from 0 to 100.' A low mark indicates an unhealthy business in need of rapid intervention or abandonment. The plumbers in our story ranked in at 66/100. They were making money, but they could do better.

After talking about plumbers, Smith quickly switches to one of the largest companies on Earth: Apple. Smith uses the model to describe how Steve Jobs returned to Apple in the 1990s after having been fired and turned the dying company into one of the most successful businesses of our time.

Smith used the business process feature of the model (or 3 by 2 square area). While circling the squares from 'Innovation Management' to 'Production Control', he said: 'this is what Steve Jobs saw when he went

back to Apple. Apple was essentially making everything they could make. I think there were 34 products in total.' At this time, Apple was focused on production, leaving innovation to die: no innovation management, no production strategy, and a waste of resources. 'Steve Jobs drastically reduced the amount they were making.' He fired thousands of people, axed production by 70% and turned a \$1 billion loss in 1997 into over \$300 million in profit in 1998. According to the Incumatrix™, Jobs shifted from 'Business Resources' coming in and too many products going out, to 'Business Intelligence' and a 'Commercial Strategy.' He unveiled much fewer products, like the colourful iMac in 1998 and iPod in 2001, then shifted to the next two squares on the Incumatrix™ covering marketing and 'Brand Control.' The 'Think Differently' campaign remains one of the most famous marketing campaigns in history, cementing Apple's brand worldwide.

This simple model can be used to map what people have done, assess the current health of a business, and figure out what they need to do in the future. Smith has created a business oracle.

A BUSINESS TREATMENT

Today, Smith directs Malta's Centre for Entrepreneurship and Business Incubation (CEBI) that runs TAKEOFF, the UM's Business Incubator filled with dozens of startups. By regularly calculating a business' scores, he can both assess the health of a business over time and compare it to others. Like a family doctor, the scores let him look at current symptoms and suggest relevant treatments to keep the business healthy.

The Incumatrix™ goes hand in hand with their description of what a business needs to do; from creation of the enterprise, to its culmination—be it selling the company or floating it on the stock exchange. In addition to this, the progress pathway mentioned earlier is a hexagonal model that describes ➤

SHIFT

OWNERS' CONTROL	BUSINESS TEAM	MILESTONE MANAGEMENT	BUSINESS VALUE	FINANCIAL CONTROL
BUSINESS RECRUITMENT	PEOPLE STRATEGY	ENTERPRISE FORECAST	FUNDING STRATEGY	BUSINESS PROFITABILITY
SALES MANAGEMENT	MARKET FORECAST	VALUE PROPOSITION	CASH FLOW FORECAST	ACCOUNTING MANAGEMENT
BUSINESS MARKETING	COMMERCIAL STRATEGY	SOLUTION FORECAST	PRODUCTION STRATEGY	BUSINESS RESOURCES
BRAND CONTROL	BUSINESS INTELLIGENCE	INNOVATION MANAGEMENT	BUSINESS SOLUTIONS	PRODUCTION CONTROL

BRAND

OWNERS' CONTROL	BUSINESS TEAM	MILESTONE MANAGEMENT	BUSINESS VALUE	FINANCIAL CONTROL
BUSINESS RECRUITMENT	PEOPLE STRATEGY	ENTERPRISE FORECAST	FUNDING STRATEGY	BUSINESS PROFITABILITY
SALES MANAGEMENT	MARKET FORECAST	VALUE PROPOSITION	CASH FLOW FORECAST	ACCOUNTING MANAGEMENT
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Production > Shift > Brand

Schematic showing how The Incumatrix™ Business Adviser can be used to describe the process Steve Jobs went through when he arrived back at Apple in 1997. A 3 by 2 square can describe a 'business process', the figure shows how Jobs shifted control from one side of the matrix (production) to the other side (brand).

Prof. Russell Smith holding his invention: The Enterprise Framework, that can assess the health of any business
Photo by James Moffett



Take the leap as Ing. Joe Bartolo did skydiving. Bartolo is the manager of TAKEOFF at CEBI, University of Malta

'Steve Jobs drastically reduced the amount they were making.' He fired thousands of people, axed production by 70% and turned a \$1 billion loss in 1997 into over \$300 million in profit in 1998.

what environment a business needs to develop. When assessing TAKEOFF, the business incubator received excellent scores in its support structure through mentorship of companies, but failed when it came to raising private equity and venture capital. This means that startups at the UM are mostly getting stuck at the incubation and acceleration phase. To amend this, Malta needs to change its laws to allow investors to invest in local companies without being taxed. 'You have to match that [business growth] with the environment they need to thrive,' says Smith, and Malta has a tonne of potential.

STARTUP MALTA

Smith, Wragg and their team at CEBI have trained 'over 100 MEnts (Masters in Entrepreneurship) on the island. So [...] we launch the next stage.' They can shift entrepreneurs from 'starting a business themselves to helping others set up their business'—a train-the-trainer approach for business that is built on the models Smith has created, which he has dubbed 'the world's first integrated programme.'

If successful, these new mentors will contribute to training hundreds of budding entrepreneurs on a model shown to help businesses survive and succeed. Smith wants this momentum to culminate in an event called MedFest which will

be held in November 2019. This activity will 'bring together ideas that are ready for investment (equity finance) with investors to showcase them and match them together,' he says. This could launch some highly successful companies in Malta, all of which will be 'helping each other, using a common framework.'

The idea could have a ripple effect, turning Malta into a hub of innovation. Dozens of companies would germinate here, then come to fruition all over the world. Malta 'can fly' but only with an 'integrated approach that fits everything together.'

THE FUTURE IS DIGITAL

The beauty of a simple model to assess a company is the speed with which answers can be given. Smith thinks that 'if all of those hundreds of components [the Incumatrix™ expert model uses a 625-point analysis] were to be considered at once people would never come back, so we have a rule: if you come and talk about your business, unless we have solved your problem in less than an hour then we don't know what we are doing.' And TAKEOFF manager Ing. Joe Bartolo reportedly performed 1000 hours of mentoring last year. Smith admits he can't 'squeeze anything more out of him,' so apart from having short handouts and a book awaiting imminent release, he

sees the model's future as being online and having a touch of blockchain technology integrated within it.

Smith wants 'Malta at the centre of the map.' Imagine a digital system that lets entrepreneurs 'answer 25 questions very quickly to give them a report and recommendations' for their business. And all for free.

Entrepreneurs can repeat this every month to assess business health simply and cheaply, improving the whole island's economy. The next feature of the digital system will involve 'answering 625 questions to issue a report, a certificate that entrepreneurs can take to the bank or investor.' They plan to couple this system with blockchain technology to provide unique and secure business reports. Smith wants to automate himself.

'I really want to use [this business model] to help as many people as possible,' Smith says. He believes that entrepreneurship should be 'available for everyone in Malta; from school children learning about enterprise, to family businesses and high growth [companies].' For him, business is a way for people to free themselves and become happier; a revolutionary idea that could see the UM becoming 'a world leading centre' both for plumbers and for the next Steve Jobs! **T**